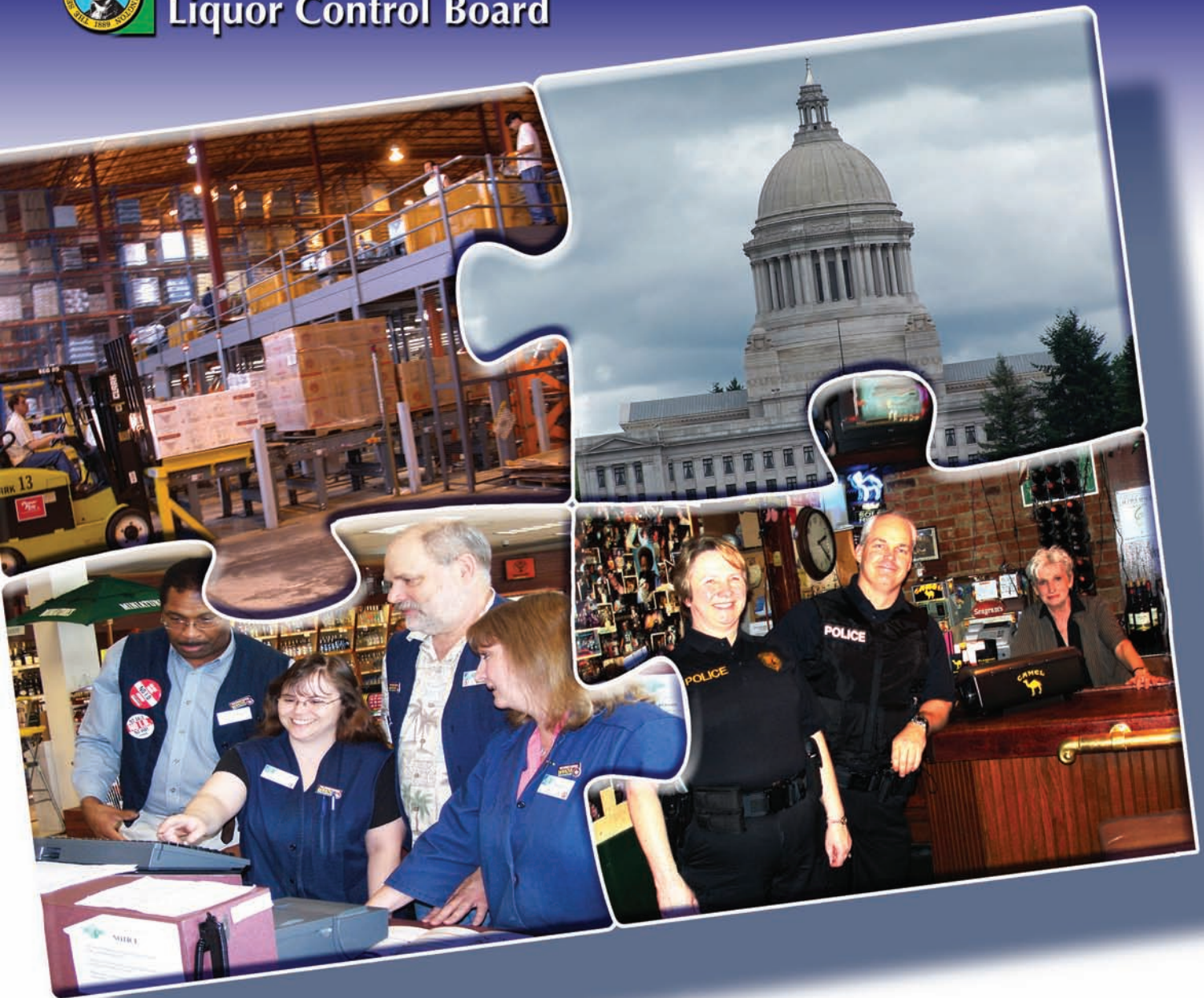




Washington State Liquor Control Board



FY 2008 Annual Report

Promoting Public Safety
Serving Communities
Selling Responsibly

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Administrative Director Pat Kohler addresses employees during an Agency Open Forum.

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Message from the Board

Dear Citizens of Washington:

We are pleased to present to you the Washington State Liquor Control Board (WSLCB) Fiscal Year 2008 Annual Report. This report provides key details about the agency's mission, operations and accomplishments during FY 2008. Below are just some of the year's highlights.

Commitment to Public Safety

The Board continued to emphasize its commitment to public safety in FY 2008. Among the most visible, the WSLCB revised its Mission, Vision, Goals and Values to emphasize this top priority. You can read the new statements on page 4 of this Annual Report. The Board also outlined its public safety priorities to guide the Management Team as it prepared the WSLCB 2009-11 Strategic Plan.

Record Business Growth and Security Enhancements

The WSLCB continued strong business growth – 6.5 percent – in FY 2008. State and contract liquor stores grossed a record \$824.6 million. More than \$322 million was returned to the state to fund essential services.

The WSLCB instituted a number of critical safety enhancements to ensure the security of our employees and customers. Key enhancements implemented in our state stores include security cameras, armored car service and, in some cases, security guards.

Beer and Wine Distribution System Withstands Lawsuit

The lawsuit surrounding Washington's three-tier beer and wine distribution system was resolved in June. In 2004, Costco had filed a federal court challenge to several key regulations, arguing they violate federal anti-trust laws. The case was closely watched nationally due to its far-reaching implications to states with similar systems. Ultimately, the state prevailed on seven of the nine challenged regulations.

Inaugural Class of Liquor and Tobacco Officer Academy Graduates

The first class of liquor and tobacco tax enforcement officers graduated from the new Washington State Liquor Control Board Basic Law Enforcement Academy. The WSLCB academy is the only training for limited authority officers of its kind in the country.

WSLCB Works with City of Tacoma on Second Alcohol Impact Area

The WSLCB worked extensively with the city of Tacoma to create its second mandatory Alcohol Impact Area (AIA) within and surrounding the Lincoln District. The AIAs are an excellent example of state government working together with communities to address local problems.

We are proud of the effort and accomplishments of our 1,450 full- and part-time employees. We also appreciate the continuing support and input we receive from the public, our stakeholders, Governor Gregoire and the Legislature as we strive to effectively carry out our mission.

Sincerely,



Lorraine Lee
Chairman



Roger Hoen
Board Member



Ruthann Kurose
Board Member

Board/Administrative Director Biographies

The Board is composed of three members appointed by the Governor to six-year terms. Board members are responsible for hiring the agency's Administrative Director, who manages day-to-day operations. The Board holds regular public meetings and work sessions with stakeholders and other interest groups, makes policy and budget decisions, and adjudicates contested liquor license applications and enforcement actions on licensees.

Lorraine Lee

– Board Chairman

Lorraine Lee, of Federal Way, was appointed Board Chairman in November 2006. Prior to her appointment as Chairman, she served as the Director of WSLCB Licensing and Regulation Division since 2002. She was the Assistant Director of the Washington State Lottery from 1997 to 2000 and Executive Policy Advisor for Governors Gary Locke and Mike Lowry from 1995 to 1997.



Roger Hoen

– Board Member

Roger Hoen, of Seattle, was appointed to the Board in 2002. Roger has more than 30 years of experience in the hospitality industry. He has been active with the Seattle-King County Convention and Visitors Bureau and served as a vice president and on the board of directors of the Washington Restaurant Association. Roger has a long history of community involvement in the Seattle area and was recognized for proactively engaging minority- and women-owned businesses as subcontractors and vendor-suppliers.



Ruthann Kurose

– Board Member

Ruthann Kurose, of Mercer Island, was appointed to the Board in January 2007. Ruthann serves on the KCTS Public Television Advisory Board and the Seattle Art Museum Community Advisory Board. She has served as chairman of the Bellevue Community College Board of Trustees for 14 years and the Wing Luke Asian Museum Capital Campaign Committee. Ruthann has a long history of public service working on congressional legislative policy in Washington, D.C., and on economic development policy for the cities of Seattle and Tacoma. In October 2007, Ruthann was honored as a "distinguished alumni" by the University of Washington Alumni Association for her efforts to ensure equal educational opportunities for students.



Pat Kohler

– Administrative Director

Pat Kohler joined WSLCB in January 2002. Pat has held senior level positions in the areas of finance, audit, materials management, and procurement. She received the 2008 Governor's Award for Leadership in Management and the 1998 Governor's Distinguished Managers Award. Pat served as president of the National Association of State Procurement Officials in 2001 and as chair of the Western State Contract Alliance from 1999 to 2001. Pat is a certified public accountant.



Vision, Mission, Goals and Values

Vision

We strive to make Washington communities safe by being:

- A recognized **national leader** in alcohol and tobacco regulation, business operation and public safety;
- A **model employer** where employees grow and thrive; and
- A **collaborative partner** that establishes effective and lasting solutions.

Mission

Contribute to the safety and financial stability of our communities by ensuring the responsible sale, and preventing the misuse of, alcohol and tobacco.

Goals

Provide the highest level of public safety by continually assessing, analyzing, improving and enforcing laws, regulations and policies as well as ensuring they are easy to understand, effective and reflect today's dynamic environment.

Maximize financial return to the state and local government by running an efficient business operation.

Recruit, develop, retain and value a highly competent and diverse workforce capable of responding quickly and effectively to challenges in our business and regulatory environment.

Create a culture that fosters excellent customer service, open and honest communication, transparency, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology.

Promote a workplace that keeps employees safe and reduces agency liability through an integrated program of risk management, safety and wellness.

Values

Respect for people

Professionalism and integrity

Honest and open communication

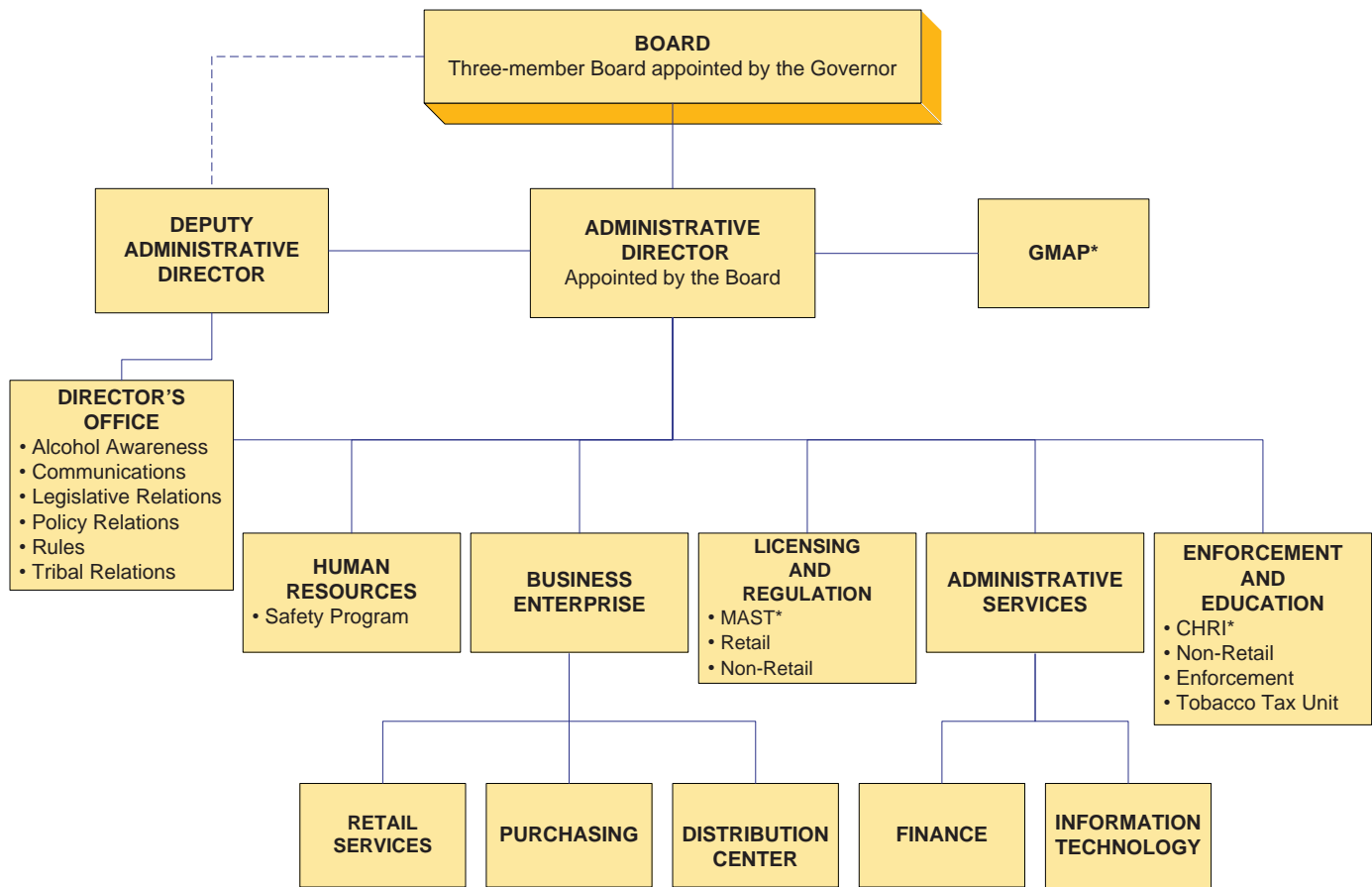
Internal and external accountability

Measurable and meaningful results

Public trust and stakeholder involvement



Organizational Structure



*GMAP: Government Management Accountability and Performance
 *MAST: Mandatory Alcohol Server Training
 *CHRI: Criminal History Records Investigator



Control States

WSLCB's Balanced Mission



Washington's Control System

The Washington State Liquor Control Board (WSLCB) was formed in 1933 by the Steele Act to regulate the importation, manufacture, distribution, and sale of alcohol.

The Board's balanced mission provides equal emphasis on public safety and controlled distribution.

Since its inception, the WSLCB has returned more than \$4 billion in revenue to the state. If current revenue trends continue, the agency will return more than \$4.34 billion to Washington in the next decade.

Why States Adopted Control Systems

Before and after Prohibition in the U.S., alcohol was recognized as a substance with potentially negative consequences for public health and safety.

The 21st Amendment to the U.S. Constitution, which repealed Prohibition, gave states the right to regulate alcohol as they saw fit. Many states adopted control systems creating a state monopoly on the sale of some, or all, alcoholic beverages in an attempt to ensure higher levels of public safety and controlled distribution.

Why Control Systems Work

- Limited store hours
- No employee incentive to sell
- Higher prices produce lower consumption
- Enforcement and licensing are coordinated
- Advertising is prohibited
- More revenue returned to state

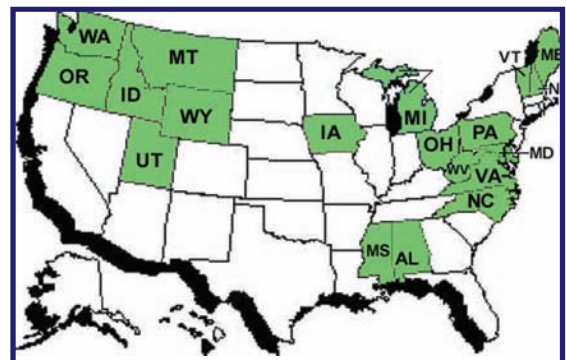
Benefits of Control Systems

- Lower per-capita consumption
- Fewer alcohol-related deaths
- Fewer lost work days
- Fewer health care issues
- Safer roadways
- Greater variety of product selection

Control System Facts

- Alcohol is taxed more in control states
- Less consumption reduces the social, health, safety and economic costs from problems related to alcohol abuse
- There are 18 U.S. control states and two control jurisdictions in Maryland
- About one quarter of the U.S. population lives in control states
- Control states average 15.8 percent less in per-capita consumption
- Control systems return about twice the revenue of non-control states

Control States



Alabama, Idaho, Iowa, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, Wyoming, and the Montgomery and Worcester counties in Maryland.

Business Enterprise - Retail Services

In 2007, the Board combined three agency divisions responsible for the controlled distribution of liquor to form the Business Enterprise team: Retail Services, the Distribution Center and Purchasing.

Business Enterprise - Retail Services

Retail Services operates 161 state stores in high-population areas and closely regulates the operation of 154 contract liquor stores serving mostly rural areas.

The Distribution Center in Seattle and Purchasing also play a key role in the overall supply chain process. Designated state and contract liquor stores supply all spirits sold in licensed restaurants in the state.

More than 800 full- and part-time employees work in Retail Services as store clerks, assistant managers and managers. State and contract stores carry more than 2,000 products, including a wide selection of Washington wines and craft beers.

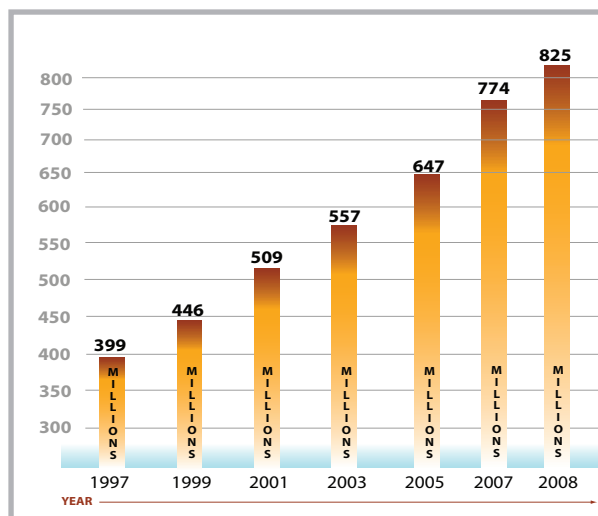
| Retail Services At-A-Glance |
|--|
| 161 state stores |
| 154 contract stores |
| Sunday sales in state and contract liquor stores generated more than \$18 million in gross sales |
| Average state store size: 5,000 square feet |
| Average state store annual sales: \$4.1 million |
| Average state store return to state: \$1.6 million |
| Average number of employees per state store: 4 (full- and part-time) |
| Average contract store annual sales: \$750,000 |
| Average contract store return to state: \$292,000 |
| Compliance rate at all stores: 93 percent |

Gross Sales Continue to Increase

Gross sales in state, contract, military and tribal liquor stores increased 106 percent between 1997 and 2008. Gross sales of liquor account for more than 90 percent of all revenue collected by the WSLCB.

Gross sales are expected to continue to increase at a rate of more than 5 percent annually during the next decade. These sales increases will

106% Gross Sales Increase 1997-2008



produce more than \$4.34 billion in revenue for the state by 2018.

Why Sales Continue to Increase

- Steady increase in state population
- Greater product diversification
- Customers buying higher-priced brands
- More strategic store locations
- Liquor stores open for Sunday sales
- Improved in-store merchandising
- Increase in licensed establishments

The WSLCB's Retail Business Plan calls for increased emphasis on:

- Store compliance rate
- Improved customer service
- Improved accounting practices
- Fewer out-of-stocks
- Higher inventory turn rates
- Improved technology
- More accessible store locations
- Improved store design
- Improved special order process

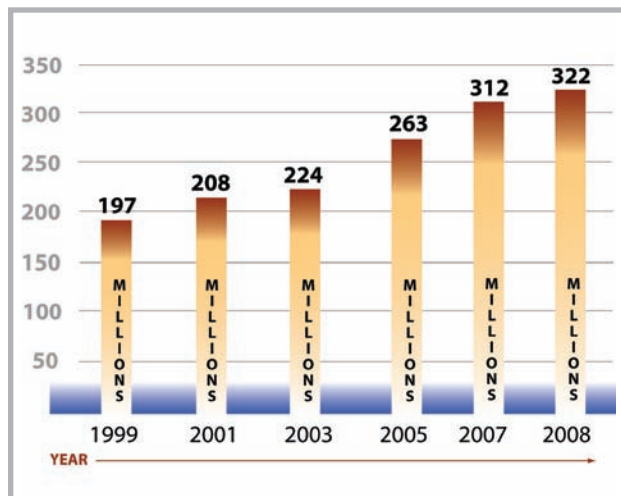
Business Enterprise - Retail Services

State Population Growth

The total state population increased from 4 million to nearly 6.6 million between 1975 and 2008. According to the state Office of Financial Management, the 21 and over population is expected to increase to 6.3 million by 2016.

Population growth, higher taxes and major brand performance - not increases in per-capita consumption - are driving higher gross sales increases of alcohol annually. Per-capita consumption has remained relatively stable throughout the last decade.

Net Return to State 1999-2008



Revenue Increasing

Revenue returned to the state from liquor sales, taxes, surcharges, fees, markup and other sources has continued to increase substantially in recent years, driven by increases in gross sales at state and contract liquor stores. If the estimated 5 percent growth rate in sales is achieved in the next decade, the WSLCB will return approximately \$4.34 billion in revenue to the state.

Sunday Sales Stores

To generate revenue and provide excellent customer service, funding was authorized by the 2007 Legislature to allow 29 state liquor stores to remain open on Sundays in FY 2008, in addition to the 20 Sunday Sales state stores approved by the 2005 Legislature. Also, an average of 42

contract stores remain open on Sundays. For FY 2008, the Sunday Sales state and contract liquor stores generated more than \$18 million in gross sales revenue.

Sunday Sales Overview

- 49 state and an average of 42 contract liquor stores are open for sales on Sunday; three of the state stores are open Sundays seasonally.
- State stores generated \$15.8 million in gross sales. Contract stores generated \$2.2 million.

POS Hardware Improvements

Retail Services continues to upgrade "Point of Sale" (POS) equipment with new hardware and additional software. Pin pad screens have been installed in state stores, and carry the agency logo and revenue information that customers can read as they complete credit or debit card transactions.

Increasing Retail Staffing

The 2007-2009 biennial budget includes more than \$11 million in funds for additional staffing for state liquor stores to meet increased customer demand and maximize revenue return. It adds 92 FTE staffing hours (approximately 17 people) to existing retail store staffing, which equates to more than 160,000 work hours.

Store Safety Enhancements

In FY 2008, Retail Services implemented a number of safety enhancements in stores, including security cameras, armored car service and, at some stores, security guards.



More than 800 employees work in Retail Services.

Business Enterprise - Distribution Center



The Distribution Center is located in Seattle.

Business Enterprise - Distribution Center

The Distribution Center (DC) is a highly automated warehouse facility that receives and ships all liquor and wine sold in state and contract stores, and all beer sold in state stores. Contract stores may purchase beer from the DC and licensed distributors.

Distribution Center At-A-Glance

220,000 square-foot warehouse in Seattle

83 employees

Automated Material Handling System implemented in 2002

Receives and ships an average of 18,400 cases per day

Supplies liquor for more than 4,000 licensed restaurants

Stocks approximately 2,000 products

DC Expansion Project

The 2005 Legislature approved more than \$22 million in revenue for improvements to help the DC meet supply and demand generated by increased sales. The WSLCB completed a 62,000 square-foot expansion of the facility in September 2007. Various equipment improvements will be completed by June 2009, including additions to the Material Handling System and Warehouse Management System software upgrades.

The DC had been operating beyond its designed capacity of shipping 17,000 cases per day for more than three years. The improvements and facility expansion enable the DC to ship up to 32,000 cases per day, which is equivalent to peak loads now being experienced.

Distribution Center Expansion Details

- Total project cost is \$22.5 million
- Financed by continuing existing \$0.20 per-liter surcharge on spirits and through legislative appropriation
- Expansion added 62,000 square feet
- New size: 220,000 square feet
- Increases daily shipping capacity to 32,000 cases
- Meets long-term growth forecast to 2018
- Increases storage capacity by 40 percent
- Adds new Pick Module, two shipping doors and eight receiving doors
- Maintenance platforms used to access equipment will be installed FY 2009
- 45 additional deck lanes
- New turret truck
- System software upgrade



A Distribution Center employee operates a fork lift.

Business Enterprise - Purchasing

Business Enterprise - Purchasing

Product Selection

Purchasing provides recommendations to the Board regarding the listing and delisting of products stocked in state stores on the basis of product performance and marketplace trends. Key factors of consideration include category performance, need within category, supplier performance, supplier marketing plans, and retail shelf space.

Supply Management

Purchasing ensures the efficient supply of products to the stores by analyzing trends and working with suppliers to achieve maximum product availability within space constraints. Purchasing also manages the logistics of seasonal promotions and manages supplier performance.

Merchandising Strategies

Effective merchandising strategies help ensure an informative and pleasant shopping experience for customers. Convenient store layouts and logical product placement on store shelves, designed using industry standard schematic software, assist the customer in locating and purchasing the products they want to purchase. Promotional displays and price reductions are offered in a responsible manner.

Consumer/Industry Relations

Purchasing works closely with consumers and liquor industry members to monitor relevant trends, address concerns, and ensure operational strategies are properly coordinated. Stakeholders include the Distillery Representatives Association of Washington (DRAW), the Washington Wine Commission, producers, distributors, and brokers. The Wine Advisory Committee is chaired by the agency and comprised of private citizens who provide valuable feedback in the wine product selection process.



Purchasing uses effective merchandising strategies to create a pleasant shopping experience.

Purchasing At-A-Glance

| |
|---|
| Over 2,500 Stock Keeping Units (SKU) procured |
| Over 250 suppliers managed |
| \$333 million in annual expenditures |
| 14 team members |

Supplier Scorecard

The Supplier Scorecard is a management tool used by the Business Enterprise to help liquor suppliers meet established performance targets. The Scorecard clearly defines expectations, provides timely feedback, and defines business expectations with suppliers on the basis of value, not brand alone.

Since the Scorecard's creation in 2006, the Distribution Center has seen significant decreases in delivery "no shows" and "out-of-stock" products.

2008 Scorecard Results

- Scorecard highlighted at Governor Gregoire's Leadership Conference as an innovative and successful accountability tool
- Expanded Scorecard program to include suppliers providing 85 percent of product volume
- Supplier performance improved by 30 percent

Licensing and Regulation Division

The Licensing and Regulation Division issues liquor licenses and permits for more than 15,000 qualified businesses. The division has 40 employees, including license investigators and specialists that:

- Determine if new and current businesses are qualified to hold a liquor license
- Regulate the production, importation, and distribution of beer and wine products
- Provide oversight for the Mandatory Alcohol Server Training (MAST) program for workers who serve alcohol. In FY 2008, 34,829 MAST permits were issued to liquor servers
- Approved 2,498 non-profit organization Special Occasion license applications in FY 2008



The Licensing and Regulation Division processed 4,907 license applications in FY 2008.

- The division processed 4,907 license applications in FY 2008, averaging 288 per license investigator for the year

| Fiscal Year | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Licensees (total) | 12,619 | 13,184 | 13,530 | 14,264 | 14,604 | 15,477 | 15,444 |

| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| Retail Licensees | 11,453 | 11,791 | 12,121 | 12,331 | 12,650 | 13,006 | 12,925 |
| Grocery Stores | 4,577 | 4,651 | 4,699 | 4,814 | 4,909 | 4,957 | 5,026 |
| Spirits/Beer/Wine Restaurants, Clubs, Sports/Entertainment Facilities | 3,832 | 3,980 | 4,104 | 4,276 | 4,439 | 4,617 | 4,683 |
| Beer & Wine Restaurants | 2,230 | 2,377 | 2,506 | 2,602 | 2,633 | 2,859 | 2,764 |
| Taverns | 618 | 559 | 580 | 396 | 342 | 300 | 243 |
| Bed & Breakfast, Serve Employees & Guests, Non-Profit Arts Organization, and Motel Licenses | 196 | 244 | 232 | 243 | 327 | 273 | 209 |

| | | | | | | | |
|--|-------|-------|-------|-------|-------|--------------|-------|
| Non-Retail Licensees | 1,166 | 1,393 | 1,409 | 1,690 | 1,954 | 2,471 | 2,519 |
| Wineries | 214 | 259 | 360 | 353 | 437 | 515 | 562 |
| Breweries | 82 | 85 | 86 | 84 | 81 | 100 | 102 |
| Distributors and Importers | 140 | 241 | 253 | 183 | 186 | 204 | 183 |
| Certificate of Approval Out-of-State Breweries and Wineries | 685 | 729 | 766 | 960 | 1,192 | 1,339 | 1,230 |
| Bonded Wine Warehouses, Distillery Licenses, Liquor Manufacturers, Wine Growers, Interstate Common Carrier, Ships Chandler, Wine Shippers | 45 | 79 | 61 | 110 | 110 | 313 | 442 |

| | | | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Applications Processed | 3,251 | 3,456 | 3,911 | 4,336 | 4,613 | 5,038 | 4,907 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|

Licensing and Regulation

Major Initiatives

Rule making and process development

Several bills passed in the 2007 and 2008 legislative sessions required the agency to engage in rule making or develop division procedures to respond to new laws in FY 2008 such as:

- a bill creating a hotel liquor license
- a bill creating a craft distillery license
- an industry bill creating a beer and wine tasting pilot in grocery stores to be conducted through calendar year 2009.

Non-Retail License Changes

In FY 2008, rules were introduced to the Board to implement Substitute Senate Bill (SSB) 6572, creating the ability for microbreweries operating as a distributor of their own products to maintain one warehouse off the microbrewery premises, subject to approval by the Board. Rules were also implemented for SSB 6770, making changes to several non-retail license types: Bonded wine warehouses, domestic wineries, domestic breweries and making tied-house exceptions.

Federal Court Upholds Washington's Three-Tier Regulations

In its *Costco v. Hoen* ruling that was watched closely around the nation, the federal Ninth Circuit Court of Appeals on January 29 reversed a lower court ruling and upheld most of Washington's three-tier regulations. With the exception of the price post and price hold regulations, the state prevailed on seven of nine challenged regulations.

On April 8, the WSLCB adopted a new enforcement mechanism for uniform pricing to replace the price post and price hold system struck down by the Court. The hold period was eliminated.

Costco requested a review of its decision, which the Court denied. On June 10, Costco announced that it would not appeal to the U.S. Supreme Court, effectively ending the lawsuit after four years of litigation.



The city of Tacoma has two Board approved AIAs.

Board approved Alcohol Impact Areas (AIAs)

In 1999, rules were adopted to create a framework for communities, the WSLCB, and the alcohol industry to work together to mitigate problems with chronic public inebriation or illegal activities linked to the sale or consumption of alcohol. The rules allow the Board to recognize a geographic area within a city or town as an AIA. The AIA must be designated by ordinance of the government subdivision, then recognized by Board resolution before any increased regulations described by these rules are applied.

Two Washington cities have Board approved AIAs: Tacoma and Seattle. In December 2001, the WSLCB approved the first request for an AIA from the city of Tacoma for the downtown central core. In 2003, the Board approved the Pioneer Square AIA in the city of Seattle. In August 2006, the Board approved two new Seattle AIAs: the Central and North AIAs. In FY 2008, the Board approved an AIA in Tacoma's Lincoln District.

The Board continues to receive reports from Seattle and Tacoma on the effectiveness of the recognized AIAs in each city.

Enforcement and Education Division

The Enforcement and Education Division is responsible for enforcing liquor and tobacco laws statewide. Officers also provide training to licensees and local law enforcement agencies.

The division's personnel carry out their duties with the highest standards of personal and professional ethics based on honesty, integrity and trust. Every individual who comes in contact with a division employee is to be treated with the highest level of courtesy and respect.

Liquor and Tobacco Enforcement Officers

Liquor and Tobacco Enforcement Officers are limited-authority, commissioned law enforcement officers empowered to enforce the state's liquor and tobacco laws.

Officers receive extensive specialized training in the areas of liquor and tobacco law enforcement. All officers must attend 32 hours of in-service training each year specific to their job responsibilities.

Officers are empowered to issue verbal and written warnings for minor infractions and administrative violation notices for more serious or repeat offenses. When a licensee is issued a violation, they can receive a fine, a temporary license suspension or both. In cases of repeated violations, a license can be revoked by action of the Board.

Enforcement officers also provide licensees with proper signage, written and online instruction on how to comply with liquor laws, and assistance developing security plans and other site-specific strategies.

FY 2008 Staffing Chart

| | |
|-------|---|
| 114.5 | Staff |
| 1 | Chief |
| 1 | Deputy Chief |
| 1 | Business Management Analyst |
| 1 | Program Manager |
| 6 | Captains |
| 1 | Hearing Officer |
| 16 | Lieutenants |
| 69 | Liquor and Tobacco Enforcement Officers |
| 14.5 | Support Staff |
| 3 | Investigative Aides |
| 1 | Advertising Coordinator |

Retail Enforcement

The Retail Enforcement section strives to protect and serve the public by ensuring legal acquisition and responsible use of alcohol and tobacco. This is achieved primarily through educational efforts and enforcement operations.

Educational efforts:

- Liquor law briefing materials and training
- Training classes offered to all licensees and their staff
- Technical assistance visits
- Educational support for licensees
- Liquor law training for law enforcement officers
- Collaboration with community groups

Enforcement operations:

- Premises visits
- Compliance checks
- Undercover operations
- Joint patrols with local law enforcement

Regional Enforcement Offices

Region 1 – Southwest Washington

Regional Office: Tacoma

Field Offices: Vancouver and Bremerton

3,744 Licensees / 14 Enforcement Officers

Region 2 – King County

Regional Office: Tukwila

3,778 Licensees / 15 Enforcement Officers

Region 3 – Northwest

Regional Office: Everett

Field Office: Bellingham

2,970 Licensees / 9 Enforcement Officers

Region 4 – Central and Eastern

Regional Office: Spokane

Field Offices: Pasco and Wenatchee

2,675 Licensees / 12 Enforcement Officers

Enforcement and Education

Enforcement operations, continued:

- Emphasis patrols at Locations of Strategic Interest
- Regulatory enforcement
- Licensing support
- General investigations encompassing:
 - Citizen complaints
 - Alcohol-related serious injury accidents
 - Financial audits

Tobacco Tax Unit

The Tobacco Tax Unit was created in 1997 to enforce the tobacco tax laws of Washington State. It includes 18 enforcement officers whose primary functions are to inspect cigarette/other tobacco product retailers, wholesalers and distributors, and to investigate and halt illegal shipments of contraband cigarettes and other tobacco products.

The Tobacco Tax Unit also:

- Maintains state and federal partnerships
- Educates wholesale, distributors and retail licensees on tobacco laws
- Works with Native American Tribes

The Tobacco Tax Unit continues to conduct retail/wholesale tobacco inspections leading to the identification of unpaid taxes on Other Tobacco Products.

Non-Retail Enforcement

Non-Retail Enforcement is responsible for the enforcement of state liquor laws and regulations that impact 2,675 non-retail licensees, including in-state and out-of-state entities that produce, import and distribute alcohol in Washington State. The state is a major wine producer with more than 500 licensed wineries. This unit has eight officers and one advertising coordinator.

Locations of Strategic Interest

The division has concentrated on identifying and addressing those establishments that pose the highest threat to public safety. Locations of Strategic Interest are those locations which pose the greatest threat to public safety in a region. These locations become the focus of intense enforcement and educational efforts by the division. Licensees are told they must either come into compliance with the liquor laws



Officer trainees graduate from the first Basic Liquor Enforcement Academy in June 2008.

or, through progressive enforcement actions, lose or relinquish their license. These programs have been very successful, and the division has received a number of accolades from local law enforcement and local communities for its efforts with these locations.

The following sources of information are used throughout the state to identify Locations of Strategic Interest:

- The Driving Under the Influence (DUI) referral lists from the Washington State Patrol and other law enforcement agencies
- Calls for services from local law enforcement
- WSLCB violation history
- Citizen and community complaints
- Complaints and other information from municipal and county governments

Basic Liquor Enforcement Academy

As a result of a successful budget request during the 2007 legislative session, the division - working with the Criminal Justice Training Commission - has established the first Basic Liquor Enforcement Academy. The first class graduated from the academy in June 2008.

The academy, unique in the nation, will provide certified law enforcement training tailored directly to the needs of liquor enforcement officers and will ensure the division has a growing number of highly trained and motivated new officers for years to come.

Divisional Marks of Excellence

Business Enterprise - Retail Services

- Long-range business planning
- Store profitability strategies
- Inventory management
- Accounting systems
- New store development strategies
- Store relocation and renovation
- In-store merchandising strategies

Retail and the Director's Office Alcohol Awareness Program created an educational poster campaign about underage drinking for stores that will be implemented in FY 2009

The 29 state stores that became Sunday Sales stores in FY 2008 garnered \$7.02 million in revenue. In FY 2008, more than \$18 million in revenue was generated from state and contract liquor stores open on Sundays

State and contract liquor stores maintained an average compliance rate of 93 percent

Business Enterprise - Distribution Center

- 220,000 square-foot warehouse in Seattle
- Supplies product to all state and contract stores
- Handles more than 5 million cases annually
- Ships and receives an average of 18,400 cases per day
- Meets demands in high-volume periods
- Maintains workplace safety emphasis
- Ensures supplier and carrier accountability
- Maintains control over 2,000 products

Addition of 4-Tier Pick Module increased productivity by more than 20 percent

Warehouse expansion increased inventory capacity by 30 percent

Liquor order fill rate increased to 94.8 percent in FY 2008, up from 93.1 percent in FY 2007

Business Enterprise - Purchasing

- Selects products using trend analysis and category strategies
- Implements modern in-store merchandising strategies
- Manages 2,000 products from more than 300 suppliers
- Works with industry suppliers and stakeholders

Expanded Supplier Scorecard Program to 85 percent of product volume, driving 30 percent improved supplier performance

Increased percentage of Supplier Managed Inventory to more than 70 percent of product volume and expanded the monthly review to ensure inventory levels do not exceed maximum targets

Enhanced communication with retail store employees through an Intranet site, and developed category training to enhance store employees' product knowledge

Two new positions led efforts on re-merchandising existing and new stores using modern retail practices, including fixture design and placement, and product schematics

Divisional Marks of Excellence

Licensing and Regulation

- Retail licensing services
- Technical assistance to licensees, applicants and the public
- Services for non-English speakers
- Mandatory Alcohol Server Training (MAST)
- Oversight of state's wineries and breweries

Processed 4,907 license applications in FY 2008

Administered the agency work related to Board adoption of the new Tacoma AIA, including analysis of data, contacting affected licensees within the AIA and providing information to the public

Updated the electronic price post and hold system to reflect the Costco lawsuit decision by the 9th Circuit Court of Appeals

Worked with local governments as part of the approval/denial process for each license application

Human Resources

- Employee safety
- Workforce planning (including succession planning)
- Cooperative labor relations
- Employee development and training
- Performance management
- Wellness program

Increased recruitment efforts with an emphasis on advertising and branding, while developing a streamlined approach to hiring in the Retail Services Division

Partnered with Department of Personnel to use the E-Recruiting System and develop a front page advertisement on the web site that featured the WSLCB

Expanded communication efforts about safety to include the intranet, newsletters and cultural integration, as well as educational efforts such as acquiring cutting edge materials related to site-specific training needs

Enforcement and Education

- Alcohol and Tobacco enforcement
- Front-line presence for public safety
- Licensee education

The first Basic Liquor Enforcement Academy class graduated in June 2008

Created new programs to target enforcement efforts, including Locations of Strategic Interest

The Electronic Notebook database allows officers in the field to check a licensee's information, issue violation notices instantly, and give on-the-spot training on topics such as identification checks and overservice

Divisional Marks of Excellence

Director's Office

- Oversee the implementation of laws/rules
- Agency policy development, GMAP, WSQA
- Agency communications
- Public records requests
- Education/awareness programs

Implemented rule-making for a new hotel liquor license, acceptable forms of identification, pre-hearing emergency suspensions and transporting liquor through Washington

The Public Records Unit processed 5,067 public records requests

Conducted internal quality assessments by division and managed feedback report efforts and related work plans. Also submitted WSQA agency lite application

Admin. Services - Info. Technology

- Central computing system maintenance
- Business technology planning/support
- Software design/implementation
- Technology training
- Customer assistance
- Internet/intranet technology support
- E-mail/telephone maintenance

Improved customer service levels by reducing the percentage of abandoned Service Desk calls from 10 percent to 1 percent

Established a permanent IT Service Management Program Office to provide dedicated resources and direction for the alignment of IT with industry best practices (ITIL)

Began formalization of IT Change Management by redirecting efforts to critical areas of agency-driven projects

Admin. Services - Financial

- Budgeting/Accounting/Auditing
- Revenue forecasting
- Facilities maintenance
- Vehicle leasing
- Travel
- Contract services
- Risk management
- Agency-wide project management

Implemented a new banking platform in conjunction with the state Treasurer's Office and Bank of America that saves staff time and increases accuracy

Improved the Revenue Forecast Model in conjunction with state Office of Financial Management to include better projections that support the legislative process

Consolidated utility payments increasing staff efficiency for accounting and retail, dramatically increasing the timeliness of payments

Implemented the Craft Distillery Reporting process in conjunction with the distillers and other agency divisions

Integrated hybrid vehicles into agency fleet (64 percent of the entire fleet) and implemented best practices in accounts receivables that recovered \$50,000 in revenue

Income and Expenses FY 2008

Income

| | |
|---------------------|--------------------------|
| Gross Liquor Sales | \$ 824.61 million |
| Beer Taxes | \$ 31.49 million |
| Wine Taxes | \$ 21.38 million |
| License Fees | \$ 11.22 million |
| Other* | \$ 1.05 million |
| Total Income | \$ 889.75 million |

* Includes lottery sales, tobacco seizures, carrier mark-up, penalties and other income.

Expenses/Distributions

| | |
|----------------------------|--------------------------|
| Cost of Product | \$ 386.91 million |
| Product Discounts | \$ 64.88 million |
| Sub - Total Product | \$ 451.79 million |

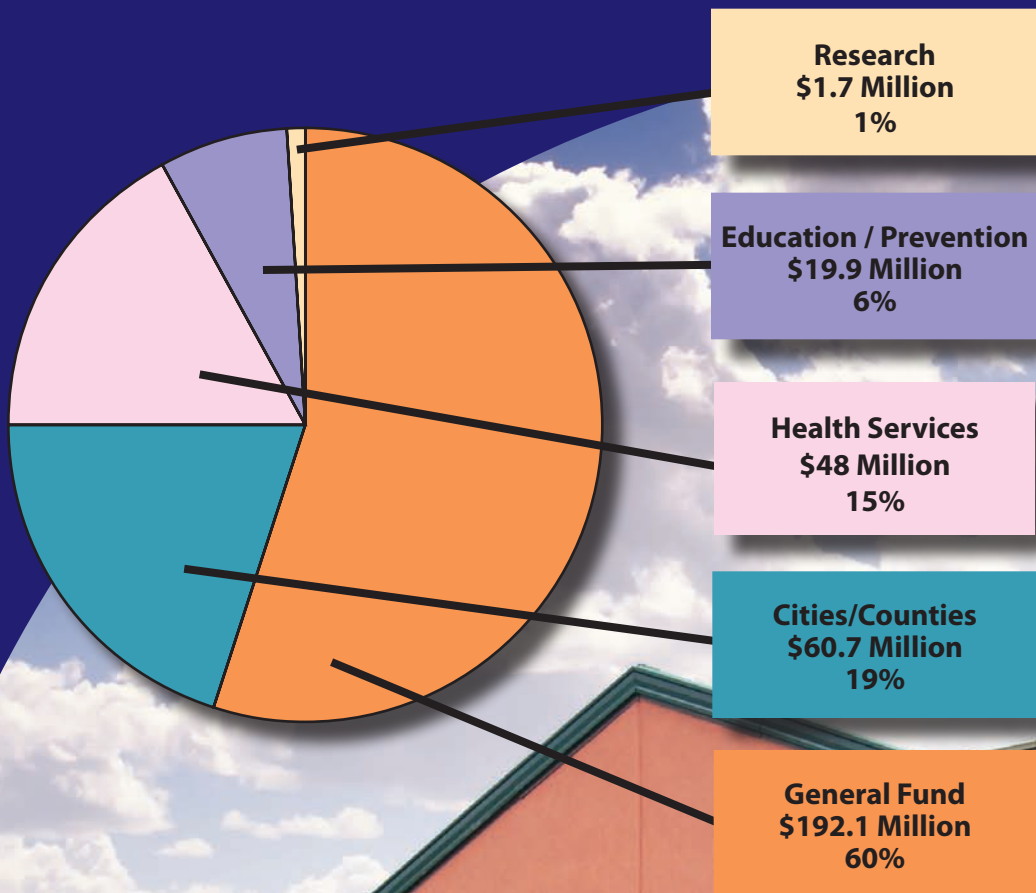
Operating Expenses

| | |
|------------------------|--------------------------|
| Retail/Purchasing/DC | \$ 78.61 million |
| Licensing/Enforcement | \$ 11.83 million |
| General | \$ 21.37 million |
| Operating Reserve | \$ 3.9 million |
| Total Operating | \$ 115.71 million |

Distributions

| | |
|--|--------------------------|
| Returned to the State/Local Government | \$ 322.25 million |
| Total Expenses/Distributions | \$ 889.75 million |

Revenue Distribution Chart



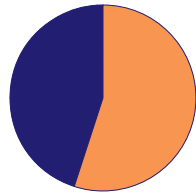
LIQUOR & WINE

**\$322 Million
returned in
FY 2008**

The Washington State Liquor Control Board returned \$4 billion to the state between 1934 and 2008. The WSLCB is expected to return more than \$4.34 billion to the state in the next decade.

Revenue Distribution

General Fund



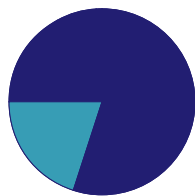
60%
\$192.1 million

More than half of the money generated by the WSLCB annually goes to the state General Fund, where it is used to provide much-needed additional resources for education and other critical state services.

In the next decade, the WSLCB will send more than \$1.5 billion to the General Fund, a significant revenue boost in a time of scarce public resources. Legislatively mandated increases in the liter tax in recent years have been used to prevent program reductions and budget cuts.



Cities, Counties



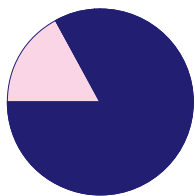
19%
\$60.7 million

Money sent to cities, counties and border areas provides increased flexibility for local government to meet community needs. Revenues are redistributed by statute to communities according to their population.

Each local government entity is required to use a portion of the money for alcohol prevention and education. Money is also used to support local law enforcement and other programs.



Health Services



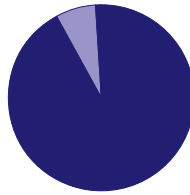
15%
\$48 million

Money generated through the WSLCB funds a portion of the state's Basic Health Program, which serves more than 110,000 people annually who cannot otherwise afford health care. The program provides affordable health care coverage through private health plans. Included are plans providing health benefits for children and for pregnant women who qualify under Medicaid criteria.



Revenue Distribution

Education, Prevention

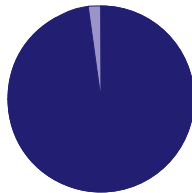


6%
\$19.9 million

Education and prevention funds pay for programs such as the statewide Violence Reduction Drug Enforcement program (VRDE), which funds drug offender treatment services, the Washington jail reporting system, the juvenile rehabilitation tracking system, civil indigent legal representation, multi-jurisdictional narcotics task forces and grants to community networks.

A portion of education and prevention funding also pays for the Department of Social and Health Services alcohol and substance abuse programs administered by the Division of Alcohol and Substance Abuse. Among these programs are community-based initiatives to reduce underage drinking.

Research



1%
\$1.7 million

Money from beer and wine taxes supports research on alcohol abuse and addiction at the University of Washington and on wine and grape development at Washington State University.

Money also is assigned to support the Washington Wine Commission, which is organized to promote and develop the state's wine industry. In FY 2008, 562 wineries were licensed in Washington state.

They are listening . . .

Alcohol has no place in a healthy childhood.

Parents are the #1 influence on whether teens choose to drink.
Start talking before they start drinking.
Visit www.StartTalkingNow.org

Washington State Liquor Control Board
www.liq.wa.gov

RUAD Washington State Coalition To Reduce Underage Drinking
www.StartTalkingNow.org

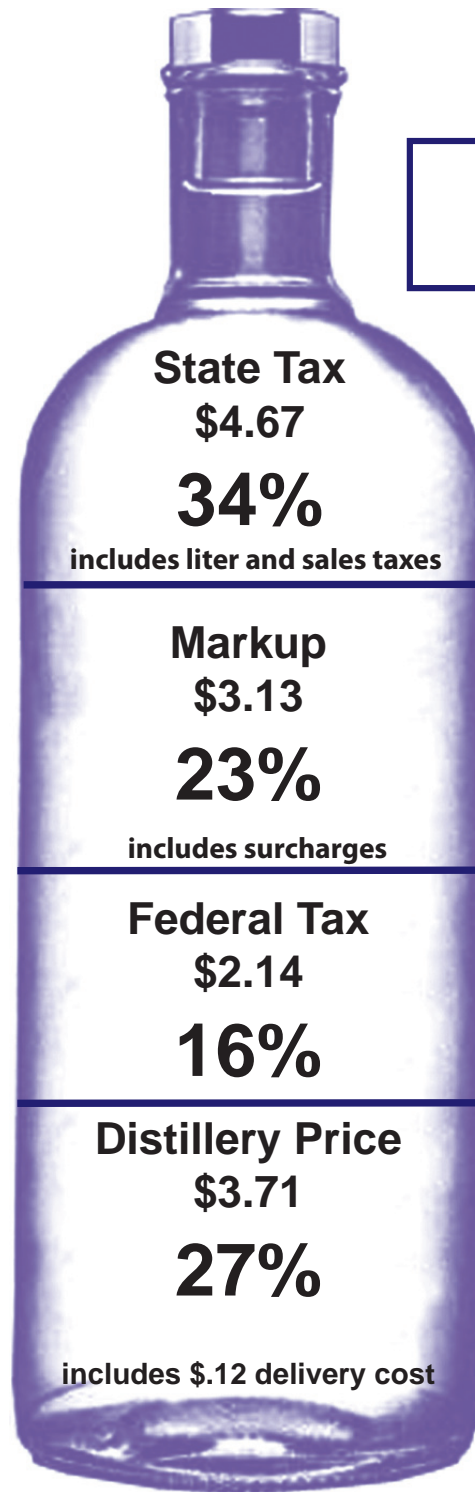
Research Distributions In Detail - \$1.7 Million

| | |
|---|------------|
| Washington Wine Commission | \$ 219,656 |
| UW Alcohol and Drug Abuse Institute | \$ 464,962 |
| WSU Alcohol and Drug Abuse Research | \$ 309,975 |
| WSU Wine and Grape Research/Instruction | \$ 224,412 |
| Alcohol Awareness Program | \$ 150,000 |
| WSP State Toxicology Program | \$ 150,000 |
| Youth Tobacco Prevention | \$ 137,630 |

WHERE YOUR LIQUOR DOLLARS GO . . .

More than 42 percent of the price of each bottle supports programs and services for Washington citizens.

Taxes, markup and fees collected provide more than \$322 million in FY 2008 for state programs and services.



Price at Register
\$ 13.65

Agency Biennial Budget 2007-2009

WSLCB 2007-09 Operating Budget

In 2007, the Legislature approved an operating budget for the WSLCB with a \$33.5 million increase, which includes 127 additional FTEs and nearly 400,000 additional liquor store hours.

2008 WSLCB Request Legislation

HB 2825 Purchasing Non-Beverage Alcohol

Allows the holder of a Class 1 or Class 2 alcohol permit to purchase non-beverage alcohol directly from suppliers rather than purchasing through the Board. Class 1 alcohol permit holders are physicians, dentists, people in charge of an institution regularly conducted as a hospital or sanitarium, or a home devoted exclusively to the care of seniors. Class 2 alcohol permit holders are people engaged in mechanical or manufacturing businesses, or scientific pursuits requiring the use of alcohol.

HB 2949 Liquor Revolving Fund

This bill allows certain expenses of the Business Enterprise Division (including Retail, Purchasing and the Distribution Center) to be moved from appropriated to non-appropriated funds in the agency budget request.

2008 Liquor Related Legislation

SHB 2959 Craft Distillery License

This bill creates a craft distillery license for entities producing 20,000 gallons or less of spirits annually. The license requires that at least half of the raw materials used in production be grown in Washington State.

ESB 5751 Beer and Wine Tasting Pilot in Grocery Stores

This bill authorizes a pilot project to be established by the WSLCB to allow 30 grocery stores to provide beer and wine tasting on the premises between October 1, 2008 and September 30, 2009.

SSB 6572 Microbrewery Warehouse

This bill allows microbreweries operating as a distributor of their own products to maintain one warehouse off the microbrewery premises, subject to approval by the Board.

SSB 6770 Omnibus Alcohol Beverage Regulatory Changes

Major bill components:

Bonded Wine Warehouse (Amends RCW 66.24.185) - Allows a bonded wine warehouse to handle bottled wine for the following reasons: Packaging and repackaging services; bottle labeling services; creating gift baskets or variety packs that may or may not include non-wine products; and picking, packing, and shipping wine orders directly to consumers.

Domestic Winery Additional Location (Amends RCW 66.24.170) - Allows wineries to sell wine of their own production at retail for on- or off-premises consumption. Employees serving wine on-premises must have a MAST permit.

Domestic Brewery and Microbrewery (Amends RCW 66.24.240 and RCW 66.24.244) - A domestic brewery or microbrewery licensee may hold up to two retail liquor licenses operated on or off the premises of the brewery or microbrewery. The retail licenses can be a tavern, beer and/or wine restaurant (BWR), or a spirits/beer/wine restaurant (SBWR). This bill also allows a microbrewery to contract-produce for another brewery.

Spirits/Beer/Wine Restaurant (Amends RCW 66.24.400.) - Allows a SBWR licensee to sell bottled wine at the restaurant to customers for off-premises consumption.

Tied House Exception (Amends RCW 66.28.040) - Allows domestic breweries and wineries to furnish beer and wine without charge to 501(c)(6) non-profit corporations or associations.

Washington State Liquor Control Board

Mission

Contribute to the safety and financial stability of our communities by ensuring the responsible sale, and preventing the misuse of, alcohol and tobacco.

www.liq.wa.gov